The Theory and Practice of Customer Bonding

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ABSTRACT. In many markets, customer satisfaction with product and service is no longer enough to guarantee customer retention. Companies are finding that they must make efforts to bond customers to them for the long term through means other than the simple fulfillment of needs and wants. We supply detailed analyses of the customer bonding activities, both intuitive and strategically planned, of four companies. These strategies are considered in the light of the literature on customer attachment, bonding and commitment.

KEYWORDS. Customer relationship management, attachment, bonding

INTRODUCTION

Recent books from some of marketing's leading thinkers have been exhorting us to focus on customers (Hiebeler et al. 1998), to know cus-

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tomers (Sharp and Johnson 1997; Woodruff and Gardial 1996), to put customers first (Walker 1990), to bond more intensely with customers (Cross and Smith 1995; Gordon 1998), to get intimate with customers (Wiersema 1998), and even to own customers (Vandermerwe 1997).

Despite the alleged customer-centric character of marketing theory and practice, the writings of marketing's foundation scholars–Robert Bartels, Wroe Alderson, even early Philip Kotler–make scant reference to matters of customer focus other than to recite the mantra of the marketing concept: become customer oriented, practise interfunctional co-ordination, generate profitable sales. Marketing was, and to a significant degree still is, a technological matter. Marketers were consumed with how best to manage the methods of marketing–advertising, sales promotion, product development, and pricing.

When customer expectations were uniform and demand exceeded supply, shifting a greater volume of "things" resulted in lower unit costs, enabling a price-driven market share strategy to succeed. It made sense in an undifferentiated market place to excel at the technology of marketing. But now the market place is changing. Companies need to find new strategies. Climbing the experience curve will not guarantee strategic success. Customers in business-to-business (B2B) markets and, increasingly, in business-to-consumer (B2C) markets are demanding tailored value propositions. Businesses expect suppliers to understand their business and to contribute to their value chain. The key question many customers now have is "how can a supplier add value?" Suppliers are finding that they have to do more than simply supply product that meets the requisite quality standards to be accorded preferred supplier status. Customers want suppliers to understand their businesses. At the extreme this may involve committing irretrievable resources to the customer, perhaps co-funding new product development. The emergence of vendor managed inventory is symptomatic of this trend.

Suppliers are finding that there is very little competitive advantage in the product component of their offer. In most product-markets, quality has risen and any one of a number of suppliers, national or trans-national, may be able to meet customer product requirements. Competitive advantage needs to be sought elsewhere. The new battlegrounds are service, process, knowledge and information. The new mantra is customer relationship management.

Customer relationship management (CRM) is taking up the challenge of creating customer-centricity. CRM's ambition is also its definition: the development and maintenance of long-term, mutually beneficial relationships with strategically significant customers. Customers having high life-time value potential are among the most strategically significant. These are the customers at the top, or moving to the top, of what Christopher et al. (1991) and Gordon (1998) respectively call the relationship marketing ladder or relationship marketing staircase. They are the partners, advocates and patrons who not only buy more, but also influence others' behaviours with positive word-of-mouth. These are the customers with whom companies want to forge strong bonds that serve as exit barriers to the relationship. The economic significance of bonding is based on two propositions: first, if bonds break, and customers defect, they take with them their future, as yet unrealised, life-time value; second, the cost of replacing defected customers is significantly more expensive than the cost of retaining them.

It has long been thought that customer satisfaction was sufficient to promote customer retention. Recently however, there has been evidence reported that a significant percentage of satisfied customers are not retained. They take their business elsewhere despite reporting their satisfaction with product, service and process. Reichheld (1993) points out that 65-85% of recently defected customers claimed they were satisfied or very satisfied with their previous suppliers. Jones and Sasser (1995) report that customers checking point 4 on a customer satisfaction scale (where 1 = completely dissatisfied and 5 = completely satisfied) were 6 times more likely to defect than those checking point 5. Reichheld (1996) reports that repeat purchase rates of cars in the USA market remains in the 30-40% range though satisfaction has reached 90%. More recently (Mitchell 1998) it has been discovered by one very distressed financial services firm that 10% of customers who gave it the highest possible score (rating it 10 out of 10) in satisfaction surveys defected to a rival brand in the following year. There does appear to be a number of product categories, such as restaurants and vacations, in which the impetus to try something new, driven by strong variety-seeking motives is a more powerful force than the urge to stay, driven by customer satisfaction. These special circumstances aside, it can be argued that customer satisfaction is not a sufficient condition to bond customers to suppliers long-term. This position was recognised by Wilson and Mummaleneni (1986) when they described the developmental process of customer-supplier relationships. They suggested that commitment to a supplier came only when investments were made in the relationship subsequent to satisfaction with the outcomes of their transactions. They wrote, "Investments in general, of course, are made into those relationships which are considered satisfactory. These investments might take the form of several adaptations in product and process areas. . . . In addition to satisfaction, the quality of available alternatives as well as the level of investment determine the level of a organisation's commitment to that relationship." They derive the following formula:

$$\text{Commitment} = \text{Satisfaction} + \text{Investment} - CL_{alt}$$

where CL_{alt} refers to the quality of available alternatives.

This perspective is reinforced by Ulrich (1989) who urges companies to strive to develop committed customers. He writes, "Satisfied customers are pleased, humoured and fulfilled; committed customers are dedicated and faithful. . . . the totally committed customer says, 'we have developed interdependencies, shared values and strategies to the extent that our separate needs can best be met through long-term devotion and loyalty to each other.'"

RESEARCH QUESTIONS AND METHODOLOGY

These observations on the apparent inability of customer satisfaction to generate long-term customer bonds lead us to the following primary research question:

What are companies doing to develop long-term customer bonds?

Our methodology involved reviewing the literature on bonding and the cognate areas of commitment and attachment. We then conducted qualitative research in 4 companies to identify the bonding activities that they implemented either intuitively or with strategic forethought. Our literature review yielded a secondary research question:

To what extent do the practices of the four companies reflect existing theory on customer bonding?

For the primary data collection phase of our research we adopted an holistic multiple-case design based on the procedures recommended by Yin (1994). Evidence was drawn from multiple sources within each company. A case study protocol, unique to each context, was prepared for each participating company as suggested by Yin. Initially 9 firms were solicited for inclusion: a utilities firm, a provider of public infrastructure, a supplier of engineering services, a football club, a food processor, a distributor of business machines, a chemicals manufacturer, a retail superstore, a waste management company. The final 4 participants were selected because they were all concerned with customer retention and engaged in B2B markets. Thus gave focus to our literature review.

The 4 companies had different ownership structures, principle activities, product portfolios and customer groups. They operated in very different competitive environments, from quasi-monopoly to imperfect competition.

Prior to conducting the 4 case studies, a mini-project was undertaken to pilot the methodology.

Informants within companies were selected by the snowball sampling method. In addition to personal face-to-face open-ended interviews, a number of multi-person meetings were scheduled, company documents were examined and many non-participant observations took place.

The four contexts examined were:

1. National First Bank (NFB). In 1995 NFB launched a no-frills product called Corporate Direct (CD) to business customers requiring simple banking services. A minimum balance of £2000 is required and interest is paid on credit balances.
2. Soong Yang UK (SUK). SUK markets electronic business equipment such as fax machines and printers throughout the UK on behalf of the European division of its Japanese parent. It has a network of 283 dealers.
3. Arc Entox Chemicals UK (AECUK). AECUK has a 65% share of the UK market for hydrogen peroxide. It sells direct to 85 bulk purchasers, with smaller packs made available through a sole national distributor.
4. Northern International Airport (NIA). NIA is one of the top 5 airports in the UK in terms of passenger volumes. Twenty-three percent of NIA's revenues comes from rental fees and commissions from 48 concessionaires.

Names have been disguised at the request of the participant organisations. The relationships studied in these 4 contexts were NFB and its CD customers, SUK and its dealers, AECUK and its hydrogen peroxide bulk buyers, and NIA and its concessionaires. In total 68 interviews were conducted, 24 meetings were attended and 32 non-participant observations took place, as in Table 1.[1]

Interviews and meetings data were transcribed and analysed using NUD*IST software. Following our research a management report was prepared for each participant.

LITERATURE REVIEW

Whilst the focus here is on the literature which directly addresses the issue of customer bonding to suppliers, there are other research streams which are tangentially illuminating. Organisational psychologists have researched the foundations of employee attachment to their employing organisations. For example, O'Reilly and Chatman (1986) conceptualised organisational attachment as a "psychological bond" between the employee and the employer. They reported that attachment had three independent foundations: compliance to secure specific extrinsic rewards, identification based on a desire for affiliation, and internalisation that is founded on the congruence between the individual's and the organisation's values. Schneider and Bowen (1985), Bowen (1986) and Ulrich et al. (1991) have all found a relationship between employee attachment and customer retention. The more attached the employee, the more likely is the customer to be retained. Reichheld (1996) suggested that retaining employees is critical to retaining customers. Companies that rotate customer management teams undermine the opportunity to develop long-term social bonds.

In the consumer behaviour literature, researchers have investigated the reasons behind varying levels of customer involvement in products and services. For example, Zaichowsky (1985, 1986) claimed that involvement was a function of the "perceived relevance of the object based on inherent needs, values and interests." Involvement, she suggests, has three attributes: (1) Personal, i.e., relating to the customer's "inherent interest, value system or needs"; (2) Physical, which includes

TABLE 1. Information Sources

	NFB	SUK	AECUK	NIA
Interviews	14	23	11	20
Meetings	7	7	4	6
Non-participant observations	3	13	2	14

any attractions of the product which may increase customers' interest and signify differentiation, and (3) Varying situations which temporarily increase the relevance of the product. The contributions these streams of research make to our understanding of customer attachment to organisations are discussed in Buttle and Adlaigan (1998a).

The focus of this study is bonding between *customer* and supplier. The relevant literature looks at bonding in both business-to-business (B2B) and consumer marketing contexts. Since the four cases we report here are all B2B contexts we refer particularly to that literature.[2]

BUSINESS-TO-BUSINESS BONDING

Much of what is known about bonding in B2B markets is a product of research by members of the IMP Group (International [or Industrial] Marketing and Purchasing Group) over the last 20 years. Reported here are the findings of Ford (1980), Hammarkvist (1982), Mattson (1985), Wilson and Mummaleneni (1996), Turnbull and Wilson (1989), and Håkansson and Snehota (1997). These are followed by contributions from a number of other researchers and commentators. Each subset is presented in chronological order.

Ford (1980) and Hammarkvist et al. (1982) have observed that as B2B relationships evolve through time, each party makes investments in, and adapts to, the other, as a consequence of which social and structural bonds may evolve, and mutual commitment emerge. Wilson and Mummaleneni (1986) argue that adaptations to product and process represent two types of investment suppliers and customers make in each other. These may be regarded as economic investments. They are often accompanied by social investments of time, energy and friendship made by the organisation's representatives. Turnbull and Wilson (1989) have also discussed the role of strong social and structural bonds in retaining customers. Structural bonds are forged when two parties make investments that cannot be retrieved when the relationship breaks down. For example, a machine tool manufacturer providing training to the customers' operators would inhibit the customer from switching to another supplier due to the cost and disruption caused by retraining. Social bonding is found in positive interpersonal relationships between buyer and seller. They may be easier to break than structural bonds as buyers can find it difficult to justify an inferior decision based on friendship. It is important that suppliers understand the value that different types of bonds bring to customers. Structural bonds can be strengthened through joint investments in product and process development; social bonds can be strengthened through multi-level contacts between employees of the partnering firms. Better social ties are more readily maintained if customer contact employees are retained.

Another IMP acolyte, Mattson (1985), claimed that bonds within business-to-business relationships and networks are of differing types and strengths: technical, time-based, knowledge-based, social, economic and legal bonds. Technical bonds are forged when two companies adjust to each other in some technical sense, such as customisation of sequential activities involving two firms' activities, for example manufacture and product. Time-based bonds occur when there needs to be inter-organisational co-ordination over the timing of some activity, for example, the packing, shipping and receipt of goods for resale. Knowledge-based bonds based on experiential learning accrue over time as two companies get to know each other's processes and structures, strengths and weaknesses, problems and opportunities. This bonding may be context-specific. For example, O'Neal (1989) reports that the introduction by a supplier of JIT inventory management processes is accompanied by greater willingness of both parties to share information and acquire mutual knowledge. Social bonds develop as a result of person-to-person interaction during which trust may develop. Companies may be united in more formal ways, investing in each other's businesses and becoming bonded through shared economic risk. Legal bonds may take the form of common ownership or contractual arrangements. Mattson stresses that these bonds are not necessarily independent of each other. For example, social bonds may need to be in place before knowledge-based bonds develop, and these in turn may be the foundation for technical bonding. Bonds may be strong or weak, easy or impossible to break, and may be employed to defensive or offensive strategic effect.

Håkansson and Snehota (1997) suggest that all supplier-customer relationships have profiles that can be described in terms of activity links, resources ties and actor bonds. The greater the range of joint activities between customer and supplier, for example, new product development, the more secure the relationship. Many business-to-business relationships involve sharing or exchanging resources, such as technology, people and knowledge, making the organisations mutually interdependent. The greater the number of activities, and the more extensive the resources deployed within those activities, the deeper the structural bonds. Actor bonds develop as customer and supplier interact over time in task and social episodes; if the episodes are valued by both parties, a sense of mutual identity and trust may emerge. These episodes are often associated with the activities linking firms. Therefore, activity links promote both structural and social bonding. Håkansson and Snehota (1997) comment that the "interplay between the three dimensions is a driving force in the development of business relationships" (p. 35) such that over time customer and supplier may become a "quasi-organization" (p. 42). In other words, the relationship becomes closer, perhaps even taking on the status of a "virtual organisation," as joint activities, resource links and actor bonds intensify.[3]

Beyond the IMP community there have been contributions from Jackson (1985), Ulrich (1989) and Gordon (1998).

Barbara Bund Jackson (1985) has argued that customer commitment emerges as the perceived costs of switching to an alternate supplier rise. Switching costs include investments of time or money that customers must make to adapt to the new supplier. Another important switching cost is exposure or risk, that is, the danger of making a bad choice. Customers feel more exposed when the product in question is important to their operation, when they buy from less well-known or well-established vendors or when the product is complex or difficult to understand. She recommends that suppliers should attempt to reduce the costs of intra-vendor switching below the costs of inter-vendor switching.

Ulrich (1989) proposed that complete customer commitment emerges when customers receive information and participate in organisational activities. Many organisations provide relevant, extensive, understandable and credible information to their customers. Few involve those customers in organisational activities. Ulrich suggests that commitment will be assured if customers are involved in the full range of human resource management issues including selection and recruitment, training and development, appraisal, rewards and organisational design. He cites General Electric as a benchmark of good practice. For example, GE's managers are appraised by the customers they serve.

Gordon (1998) has suggested that there may be up to 7 different forms of bond between customer and supplier: structural bonds, brand equity bonds, attitudinal bonds, personal bonds, information and control bonds, value bonds and zero option bonds. Structural bonding occurs when supplier and customer align their technologies, people or business processes and become, effectively, a virtual organization; EDI typically accomplishes this end. Brand equity bonding occurs when customers derive value from the augmented offer, that is both the functional and emotional attributes of the product. Attitudinal bonding occurs when customers develop an affinity towards the supplier's professionalism, values, culture and customer focus. Personal bonds motivate customers to do business with particular people no matter the organisation for which they work. Personal bonding occurs at many levels in organisations from chief executives to sales and purchasing agents. Information and control bonding happens where customers obtain value from the reporting and information systems of the supplier. For example, UPS and FedEx may be preferred suppliers for package delivery because of their track and trace systems. Value bonding occurs when customers "repeatedly derive the value they seek from their suppliers, and have every reason to believe that they will continue to receive this value over an extended time horizon" (Gordon 1998, p. 108). Loyalty programmes and mass customisation attempt to deliver this form of enhanced value to customers. Zero option bonding occurs when there are monopolistic supply conditions or when perceived switching costs are high. When a customer has invested heavily in a supplier, it may be extremely difficult to switch in all but the most extreme of conditions.

There are some clear overlaps between these theoretical positions. For example, the IMP group cohere around the idea that resource and activity linkages between customer and supplier promote structural bonding, and that activities linking actors within the dyad promote social bonding. Ulrich's (1989) description of (human resource) activity links between customer and supplier fits neatly into Håkansson and Snehota's (1997) taxonomy. Mattson's (1985) analysis could also be given a social/structural interpretation. Legal, technical, economic, time-based and knowledge-based links all contribute toward stronger structural bonds. Jackson's (1985) analysis of switching costs indicates that as mutual investments increase structural bonds become more secure. Similarly, Gordon (1998) notes the phenomena of social (he calls it "personal") and structural bonds. Table 2 offers a perspective on the possible linkages and overlaps between the various theoretical positions.

RESULTS

Bonding at NFB

There is certainly potential for social bonding to occur between NFB contact employees and customers but we found no evidence of struc-

TABLE 2. Bonding: Linkages Between Theoretical Positions

	Social	Structural
Wilson & Mummaleneni (1986)	• Social	• Economic
Mattson (1985)	• Knowledge • Social	• Knowledge • Time-based • Economic • Technical • Legal
Håkansson & Snehota (1997)	• Activities • Actor bonds	• Activities • Resources
Jackson (1985)		• Investments • Exposure
Ulrich (1989)	• Activities • Information	• Activities • Information
Gordon (1996)	• Personal	• Structural • Information and control • Zero option

tural bonding. NFB's contact with customers is only by "phone, fax or letter. There is no face-to-face interaction. Insofar as social bonds do evolve, this is achieved principally through frequent telephone conversations. The less frequent the transactions the less potential for social bonds to develop. A number of customers do ask to speak to particular customer service agents when they call but NFB has not invested in the caller recognition and call routing technology which would enable social bonds to develop more closely. Such technology is prohibitively expensive for what is currently a small business with few customers. CD is a "no-frills" banking service aimed at business customers whose account transactions are entirely or principally cheque-based and who keep a minimum credit balance of £2000. The product is positioned as a basic, low-cost service that avoids bundling in high-end costly services. CD's core service is accurate, fast and cheap cheque processing whose customers are attracted by convenience and low cost account management. Indeed, NFB sacks or deselects customers who do not match the target market profile. Instead, these customers will be advised to use other, higher cost NFB products. NFB believes that social bonds will develop if it continues to satisfy customers by providing what it calls "the best service," i.e., a service that is both helpful and prompt. Because customers do not have to make investments in technology or software or deploy any special resources to use NFB's CD service there is little scope for structural bonding. In the absence of social or structural bonds one would expect a high propensity to switch if customers were dissatisfied with the core service.

Bonding at SUK

There is plenty of evidence to support the idea that social and structural bonding are important parts of SUK's effort to manage its dealer network. SUK relies heavily on its sales representatives to maintain close contacts with its dealers. Reps call frequently in person and by phone either as part of their normal call cycle or at a dealer's request. They give support to dealers by, for example, helping them demonstrate new products to the dealers' customers. Reps also trouble-shoot and act as go-between when dealers have matters to raise with other SUK people, for example, if there is a query on invoice. Reps engage in a lot of different activities on behalf of dealers, and attempt to be both reliable and responsive. A couple of comments from our database illustrate the point:

> *John* (one of SUK's sales representatives) *has always returned telephone calls. If he is going to do something, he does it*. (Dealer 1)

> *They offer us support in terms of area representation and Tim* (another SUK rep) *coming around to see everything is all right*. (Dealer 2)

Frequent encounters around a variety of activities lead to strong social bonds and, in some cases, dependency as this illustrates:

> *When I am dealing with SUK, I get the feeling that I am dealing with a compact unit that I can relate to, and that I can get to senior people and be on first name terms, really*. (Dealer 3)

Bonding is particularly strengthened when SUK and its dealers co-operate to resolve technical problems faced by the dealer's customers. SUK trains dealers to service and repair SUK's products:

> *If we want training, we know the engineers. We don't have too many problems. We know who to talk to, to get it resolved, which we don't have with other companies*. (Dealer 4)

When SUK trains dealers to service and repair current products, and provides new product training, it is investing in structural bonds. Further investments involve providing technical support to the dealers' customers, contributing towards dealers' expenses in promoting SUK's products in the showroom or at exhibitions, loaning machines for demonstrations and further evaluation, and lending machines for trial by dealers' customers. Dealers in turn make few investments in SUK.

The wide range of activities between SUK and its dealers create an environment in which social bonding can prosper. Although there are structural bonds in place, SUK recognises the potential for further improvement. For example, dealer inventory could be managed by SUK; at present, it is not. Neither are SUK and the dealer locked into contractual obligations to each other. Dealers make no investments in SUK other than buying product for resale.

Bonding at AECUK

Social bonds link AECUK and its customers. A team of sales managers handles AECUK's bulk accounts. Each manager works with a dedicated customer care team to oversee routine administrative matters such as order processing and deal with customer concerns such as product discrepancies. Sales managers meet regularly with their accounts. Often discussions range across issues unrelated to the product:

> *My interface with Dan, he's my sole contact. Although we don't talk daily Dan pops in on a frequent basis, very personal. Not official. It is very informal and that is the relation we like. We don't like the stand-off approach*. (Customer 1)

> *A meeting isn't always to negotiate a sale or something directly related to the trading. . . . Dan could tell me what is happening with our competitors. I could tell what is happening with our competitors which in turn could impact on us, which in turn could impact on his business*. (Customer 2)

Some customers regard the social dimension of their business relationship with AECUK as very important. One customer commented:

> *Dan is AECUK. AECUK could be an enormous conglomerate. I don't know. I wouldn't care. This is AECUK here. AECUK sat to my right* (indicating the sales manager). (Customer 2)

Strong bonds between actors from both sides can be beneficial to AECUK. Social bonds have helped AECUK win new supply contracts and obtain information about competitors and the market. Social relationships, however, are not always strong enough to withstand economic pressures:

> *A horrible incident was when a customer who you have been working very hard with, gave them a lot of support too, you go into their meeting and they tell you will be losing 90% of your business there. You are getting 10% because of price. That was XYZ paper*. (Sales Manager 1)

In some circumstances, successful social bonding has led to the development of structural bonds. When one customer became sufficiently comfortable in its relationship with the AECUK sales manager, it allowed the supplier to manage its inventory exclusively. AECUK and the customer invested jointly in a telemetry system, a form of electronic data exchange, akin to EDI, to monitor the customer's storage tanks and to automatically deliver new supplies when the stock level reaches a reorder criterion.

When another customer became confident of AECUK's technical ability, it jointly developed, with the supplier, a particular specification of hydrogen peroxide for a particular application. Another customer adapted its manufacturing process to accommodate AECUK's product specification. AECUK will invest time, people and money helping customers develop manufacturing processes or products which employ hydrogen peroxide. As a consequence, one textile industry customer for example, now uses hydrogen peroxide in an innovative way that adds value by reducing processing time, water consumption and industrial effluent.

AECUK has built structural bonds with some customers by financing the installation of storage tanks and the dispensing system. Customers repay these investments over a period of years. Additional structural bonds with customers are developed when AECUK provides information to its downstream supply chain. For example, Atlantic salmon bred in fish farms are cleaned of the sea-lice which infest their skins by application of hydrogen peroxide. AECUK has let downstream processors and intermediaries such as supermarkets know of their role in helping produce high quality consumables for the domestic and catering trade.

Bonding at NIA

Structural bonds link NIA to its concessionaires. Other than the contractual terms (legal bonds) which specify the obligations of each party to the other for between 3 and 8 years, the primary form of structural bond is that of mutual investment. NIA invests in what it calls the "shell" of the shop. The operator invests in fixtures and fittings. The sum can be large for, say, a restaurateur, but small for, say, a tie retailer. NIA also invests in improvements to the airport infrastructure to improve services to airport users and make shopping "easier."

NIA also builds social and structural bonds with all the concessionaires, but most notably the big 4, which together contribute over 80% of NIA's retail-originated income. The bonds are developed through periodic meetings in which sales performance and other issues are discussed. NIA and the operators work jointly to achieve solutions. According to one concession manager:

> *We lead the discussion and it is a chance for us. We obviously talk about performance and we talk about some of the numbers. Things like penetration, sales per passenger, sales in general, which codes are doing well, whether it is the books that we are seeing the growth on or news. There is also a chance for us to talk about some of the issues behind the figures*. (Manager, concession 1)

NIA operates a team that monitors concession performance, including their compliance with the terms of their contract. NIA also designates staff member (buddy) to keep in touch with every concession. This is a primary enabler for the development of social bonds. One concession manager reported:

> *As it was, one phone call, somebody came down, took a look, and yeah, we can sort that out for you, and it was just done on an informal and easy way*. (Manager, concession 1)

NIA strengthens structural bonds by financing some or all or the retailers' promotional activities and by conducting market research. NIA and concessions also share information on flights, passenger buying behaviour, sales performance of products and general business strategies. NIA also encourages concessionaires to build bonds between themselves by holding joint planning meetings and organising job fairs.

CONCLUSIONS

In this section we discuss the relationship between the research questions, our data and the binary categorisation of bonds into social and structural forms.

Our research questions were:

> What are companies doing to develop long-term customer bonds?
>
> To what extent do the practices of the four companies reflect existing theory on customer bonding?

These four companies are engaged in a number of bonding activities.

National First Bank (NFB) believes that delivering "the best service" to its customers will promote customer bonding. NFB has given no thought to creating customer bonds above and beyond those associated with mere customer satisfaction. There is no strategy in place. They simply believe that customers who feel that they are receiving excellent service will be disinclined to switch to other banks. Given that NFB's CD product is positioned as a no-frills business banking service, keeping account charges to a low level is a key component of the value proposition. High levels of service and low levels of account charges are not readily compatible. There is no evidence of structural bonding in the NFB case. In addition, given that CD is a remote banking service, there is little opportunity for social bonding, since face-to-face interaction does not occur. A limited amount of telephone interaction takes place but this is almost entirely task-activity related. Like many banks, NFB incents its service agents to process calls quickly. There is little opportunity to talk socially with customers. Because of the evidence that even satisfied customers switch, we believe that NFB should carefully monitor customer churn rates and give strategic thought to creating hard-to-break bonds with customers.

Soong Yang UK (SUK) actively promotes social and structural bonding with customers. However, like NFB there is no considered strategy in place. Much of what SUK does is simple considered good management practice. SUK's sales representatives endeavour to give excellent service to their customers, and oftentimes, to their customers' customers. Their stated goals are to be reliable and responsive; however, they are not rewarded directly against relevant Key Performance Indicators. Our interviews with SUK's customers supported the contention that a high standard of service was delivered. Frequent contacts give opportunities for social bonding. SUK promotes structural bonding too. The company trains dealers to repair SUK products, provides new product training, funds co-operative promotions and advertising, and loans equipment for demonstrations. These investments in dealers are irretrievable should the relationship break down. Dealers in turn make few investments in SUK other than purchasing inventory.

SUK supplies a single major Japanese brand to its distributors. However, SUK is only one of six major international brands in the office equipment market place that is recognised for a very high level of product innovation. Consequently, dealers carry several competing brands and are not loyal to a single source. SUK is dependent upon the European division and Japanese parent company to constantly develop and launch new products. It is unlikely that a high level of service coupled with an ageing product range will be sufficient to bond customers long-term to SUK. We believe that SUK should segment its 283-member dealer base according to value and service requirements, and work with strategically significant customers to build customised bonds. This might include managing dealer inventory, supporting dealer salespeople with training and collateral materials, just-in-time delivery, or taking on the role of category captain.

Arc Entox Chemicals UK (AECUK), like SUK, has social and structural bonds in place, but has given no thought to developing a bonding strategy for its 85 bulk hydrogen peroxide customers. Sales managers meet regularly with customers for both social and task-related purposes, and are supported by dedicated customer care teams. Social bonds featuring high levels of trust do emerge from these frequent contacts. The company has also built structural bonds by investing jointly with customers in ventures such as customised product specifications, a telemetry system for inventory management, process engineering, and cost-reduction programmes. Sometimes AECUK bears the full cost of these investments; other times customers repay AECUK over time; other times the costs are shared. It is clear that AECUK could not build structural bonds of these kinds unless it had substantial knowledge about its customers' value chains. This disclosure of sensitive information represents a relationship investment by customers.

AECUK operates in a highly competitive market place. It presently has a 65% share of the UK market, down from 85% over a short period of time. It is very concerned about loss of market share either through customer defections or reduced share of customer spend. Chemical manufacturing is a process industry in which volume throughput is essential for good business performance. We believe that AECUK should seek to protect its relationships with strategically significant customers (those with high volumes and/or high life-time value) by investing in customised bonding strategies. To achieve this, the company will need to conduct a customer portfolio analysis, tracing both current and prospective costs and revenues to customers, in order to identify the customers for whom exit barriers should be erected. Further it should seek to understand their customers' propensity to switch or reduce volumes, and benchmark its current structural bonding activities against best-in-class to identify opportunities for improvement.

Northern International Airport's (NIA) relationship with its concessionaires is grounded on a structural bond–a legal contract–which specifies what each party contributes to the venture. However, NIA does go further to develop other structural bonds. For example it co-funds market research and co-operative advertising. Social bonds are also in place, for example, NIA's "buddy" scheme, under which a named contact is provided for each concessionaire in the airport. There is very much a symbiotic relationship between the parties. As NIA passenger volumes rise and fall, so does concessionaire revenues, and, in consequence, NIA's cut of those revenues. Equally, the better the concessions are at retailing, the more profitable the relationship for NIA. There is a clear and strong economic incentive for both parties to work together to make the relationship profitable. Each makes irretrievable investments in the relationship and neither party could prosper without the other. Unlike the other cases we find that the contractual structural bond is the central and characteristic feature of this relationship. The bond is not an adjunct to the overall relationship; it is the core trait of the relationship. Additional forms of structural and social bond allow the relationship to perform more effectively and efficiently. However, the core contractual bond and the mutual investments ensure that neither party exits the relationship prematurely. Indeed, half of the concessionaires have been at NIA in excess of 5 years, and one concession has been an NIA partner for 32 years.

DISCUSSION

In this section we discuss the implications of our findings for theory and practise.

Implications for Theory

These four case studies illustrate a number of forms of social and structural bond and are generally supportive of the taxonomy in Table 2. Ford (1980) and Hammarkvist et al. (1982) have observed that as B2B relationships evolve through time, each party makes investments in, and adapts to, the other, as a consequence of which social and structural bonds evolve and mutual commitment emerges. We add a further observation. We found that opportunities for structural bonding emerge as a result of strong social bonds being in place. One customer of AECUK, for example, was courted for 2 years before making the first purchase. AECUK was awarded with sole supplier status only after many further years of excellent service.

Wilson and Mummaleneni (1986) argue that adaptations to product and process represent two types of investment suppliers and customers make in each other. These may be regarded as economic investments. They are often accompanied by social investments of time, energy and friendship made by the organisation's representatives. Evidence from AECUK supports this contention. After many years of excellent technical and service performance, one customer sought AECUK's advice on how to improve their manufacturing process using hydrogen peroxide.

Håkansson and Snehota (1997) suggest that all supplier-customer relationships have profiles that can be described in terms of activity links, resource ties and actor bonds. The greater the range of joint activities between customer and supplier, the more secure the relationship. Many business-to-business relationships involve sharing or exchanging resources, such as technology, people and knowledge, making the organisations mutually interdependent. Actor bonds develop as customer and supplier interact over time in activity-linked and social episodes; if the episodes are valued by both parties, a sense of mutual identity and trust may emerge. We find strong evidence of extensive activity links, resource ties and actor bonds, particularly in the AECUK, SUK and NIA contexts. When asked to identify any differences between AECUK and other hydrogen peroxide suppliers, one customer commented:

> *Yeah, the interface is the difference. The others supply their product. That is it. These guys* (Dan and AECUK) *followed up. Dan obviously makes sure the product is right. It is working with our kit and extend, you know, going out of the bound of what they really do in their brief. As I said earlier, they provided hydrogen peroxide. They don't need to come and walk through the bleaching machines and tell us where it is going wrong, but he does*. (Customer 1)

Implications for Management

Despite these activities, ties and links, it is not clear that any of the companies have given any dedicated thought to how they can better develop long-term bonds with customers. Customer bonding is not a strategic issue for any of them. All 4 companies operate in different competitive environments. NFB is one of many banks courting small businesses. Customer exit barriers are very low; there are few, if any, switching costs. It believes giving "the best service" is enough to retain customers. SUK is one of several major Japanese electronic brands available through UK dealerships. Dealers have a good deal of power on the brand decision of their customers. AECUK is a commodity manufacturer fighting off low-cost imports by offering value-adding services to customers. They seem to do this regardless of the value of the customer. NIA has a local monopoly. If concessionaires are not satisfied with the performance of NIA there is no other local airport to which they can take their business.

In an environment where customers can choose to take their business elsewhere, it makes sense to conduct a customer portfolio analysis to identify which customers will be tomorrow's profit generators, and to focus on recruiting, retaining and developing those accounts. An audit of the existing range of the social and structural bonds which couple customer and supplier would be a sensible first step to identifying further potential linkages.

NOTES

1. These interventions generated a significant amount of data beyond the scope of the research questions in this paper. Further reports will be published on customer retention and CRM practices more broadly.
2. For insight into bonding in a consumer marketing context refer to Cross and Smith (1995) and Buttle and Aldlaigan (1998b).
3. Since we conducted our casework, Holmlund (2000) has generated a further conceptualisation of customer-supplier bonds. Some, she notes, are barriers to exit (legal, economic, technological, geographical and time-related bonds); others are incentives to stay (knowledge-related, social, cultural, ideological and psychological bonds).

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EXECUTIVE SUMMARY

We know from several studies that customers who are satisfied are still at risk of defecting to competitors. It seems that it is simply not enough to achieve high levels of customer satisfaction. Managers need to consider new ways of bonding customers to them for the long term. We review the literature on customer bonding and report the implicit and planned bonding strategies employed in 4 companies.

Long-term customer retention is important because it is a major driver of business performance, particularly in mature markets when new customers can only be won from competitors. Customers who are retained generally are less costly to serve and buy more than newly recruited customers. Furthermore they create positive word-of-mouth and customer referrals.

Once a customer defects completely or takes a significant share of their purchasing to a competitor, not only does the current supplier incur the cost of customer replacement but loses all future margin that might be earned in a relationship. One defence contractor, for instance, estimates that it would be 12 times more expensive to win a new customer (a government contract to supply aircraft) than retain a specific, existing, customer. It estimates that the entire value chain of supplying, servicing, decommissioning and replacing aircraft represents a multibillion dollar positive cash flow that is transferred to competitors once a contract is lost. Given that the existing customer is a "reference" customer renowned for the standard of its air defence capability, its loss would have serious referral implications too. For this contractor, developing long-term bonds that transcend mere customer satisfaction is critical for the exploitation of the potential margin stream in the value chain.

Research into bonding has revealed a number of bonds that suppliers can make with their customers. Bonds may be negatively cast, in the sense that they create barriers to customer exit. These include legal, economic, technological, geographical and time-related bonds. Others are positively cast in the sense that they motivate customers to remain in the relationship. These include knowledge-related, social, cultural, ideological and psychological bonds. These bonds may be interdependent. For example, social bonds may need to be in place before knowledge-related bonds develop, and these, in turn, may be the foundation for technological bonds, and these may serve as the motivation for the witness of legal bonds (e.g., contracts) between parties.

Our review of 10 different research studies into bonding generated a number of different classifications that we have attempted to collapse into a simple binary scheme. We categorise bonds as being either social or structural. Social bonds develop over time as a consequence of interactions between people on the supply and customer sides. These may be task-related or personal in character, but if both parties view them positively, trust and commitment may emerge. Stronger social bonds emerge if there are multi-level linkages between organisations.

Structural bonds occur when one or both parties make investments in the other. These investments might not be retrievable should the relationship break down. Investments may take the form of modifications to products and processes. Many supplier-customer relationships involve sharing or exchanging resources, such as people, knowledge, technology and money. These too are investments in relationship-building. Over time these mutual investments may lead to bonding so tight that the two organisations become a virtual single entity. This is often the case in joint ventures and alliances.

We examined the *de facto* bonding strategies in four companies: a bank, an airport, a chemical manufacturer, and a distributor of imported office equipment. The cases illustrate a number of different forms of bond, both social and structural. Specific forms included legal, knowledge-based, service-based, technical and financial bonds. We observed that suppliers had made adaptations to their products, processes, communications, people, promotional activities, prices and physical environments to meet the requirements of customers. These investments serve as structural bonds.

It was clear from our research that the bonds we observed in these companies were not the product of careful thought. Not one company had given any dedicated consideration to how to bond more closely with customers. We believe this is a strategic error. We recommend that companies conduct a *Bonding Audit*. This would comprise a number of activities.

- Identify the customers with whom the company would like to develop long-term bonds
- Identify at-risk customers who have a high propensity to switch all or some of their purchasing to competitors
- Identify the current social and structural bonding practices of the company
- Identify whether customers view these bonding practices positively or negatively

- Identify companies enjoying a significant share of customer spend in competitive and comparative marketplaces. Benchmark their bonding practices
- Develop customer-specific bonding strategies including objectives, activities, participants and milestones.

A *Bonding Audit* would enable companies to give appropriately careful consideration to a hitherto ignored component of business strategy. Successful implementation of bonding strategies should yield benefits in terms of customer tenure, share of customer and customer profitability.